



Judith Healey, foundation consultant

Foundations inclined to keep a low profile on public-policy issues

A Civic Caucus Review of Minnesota's Public Policy Process Interview

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Present

Steve Anderson, Dave Broden (vice chair), Janis Clay, Paul Gilje (executive director), Judith Healey, Randy Johnson, Ted Kolderie, Dan Loritz (chair), Bill Rudelius, Dana Schroeder (associate director), Clarence Shallbetter. By phone: Sallie Kemper (associate director).

Summary

According to longtime philanthropic professional Judith Healey, foundations used to see themselves as having little role in public life, affecting or effecting public-policy changes. While things have changed in that regard in the past few decades, she says foundations are still careful about being identified with a public-policy push. Because of federal regulations against foundations lobbying and because they are unelected forces in the public arena, they don't want to arouse the interest of Congress. Healey says foundations believe the best way to do that is to keep a low profile on public-policy issues.

She asserts that even if they worked together, foundations wouldn't have the expertise or necessarily the interest in developing a list of the most urgent needs in the community, as the Citizens League used to do. She believes the Civic Caucus or other organizations like it should be the ones to develop such a list.

Large foundations tend to be staff-run, Healey contends, while small foundation boards, especially in family foundations, tend to be more involved in developing grant guidelines and directing the staff. But in all foundations, she says, the power ultimately lies with the board, because it can always fire the staff.

Healey discusses the challenges of defining outcomes, both for foundations and for their grantees. Are outcomes activities or longer term change?

She outlines the most important requirements foundations must meet as a result of the U.S. Tax Reform Act of 1969, which she says was prompted by concerns in the 1960s over financial scandals

at foundations and abuses of their tax-exempt status. Among the requirements: more openness and reporting on foundation operations, no lobbying (except on voting rights) and making gifts of at least five percent of their assets every year.

Biography

Judith Koll Healey has been a philanthropic professional for 40 years and is president of Executive Consulting, a national firm that works with families of wealth in their philanthropic efforts. From 1975 to 1979, she was executive director of the [Minnesota Council on Foundations](#). She also worked at the General Mills Foundation, the Northwest Area Foundation, the St. Paul Foundation and the Minnesota Community Foundation. She has worked with the national Council on Foundations and with 95 different foundations around the country.

Healey has written two novels: *The Canterbury Papers* (2005) and *The Rebel Princess* (2009), both set in medieval France. She wrote the biography *Frederick Weyerhaeuser and the American West* (2013) and is also a published poet and short-fiction writer.

She has a B.A. degree in English and theatre and a B.S. degree in education and speech, both from the University of Minnesota. She has an M.A. in human development from St. Mary's University in Minneapolis.

Background

The Civic Caucus is undertaking a review of the quality of Minnesota's past, present and future public-policy process for anticipating, defining and resolving major public problems and issues. The Caucus interviewed Judith Healey, veteran philanthropic professional, to get her perspective on the role foundations have played in that process in the past, play currently and could play in the future.

Discussion

Foundations are legal, tax-exempt entities. Philanthropic professional Judith Healey noted that donors to private foundations get income-tax deductions. In the mid-1970s, John Nason, former president of Carleton College and Swarthmore College wrote a book on foundations, *Trusteeship and the Future of Foundations*. In it, Healey said he argued that foundations are quasi-public organizations and have a public responsibility. Since there is a tax deduction going in, there must be a public benefit coming out. "Many foundations have sort of forgotten that in the interim," she said.

Most foundations are 501(c)(3) organizations, which means they are tax-exempt. These include private foundations, private family foundations, corporate foundations and community foundations. Community foundations have been more oriented to the community, she said. Over the last two decades, community foundations have shifted more to donor-advised funds. The donor and the donor's children can direct the donor-advised fund and after the children cease to advise, control of the fund passes to the foundation itself.

There are organizations that call themselves foundations, like the Kidney Foundation or the Make-a-Wish Foundation, that are not grant-making foundations at all. They act like community foundations in

accepting gifts from many people, but they don't really make grants. Healey said the foundation world distinguishes between grant-making foundations and other nonprofit foundations.

Regulations on foundations are the result of the 1969 U.S. Tax Reform Act. During the 1960s, many foundations received public attention and censure because of their financial scandals and abuses of their tax-exempt status, such as using foundations for tax evasion or failing to distribute foundation funds. Those concerns, Healey said, prompted Congress to pass the U.S. Tax Reform Act of 1969, which required foundations to:

- Make an annual report to the public, which had never been required before.
- File an IRS Form 990 with the state and federal governments annually. The Form 990 is an informational tax form that most tax-exempt organizations must file annually. It gives the IRS an overview of the organization's activities, governance and detailed financial information. Form 990 also includes a section for the organization to outline its accomplishments in the previous year to justify maintaining its tax-exempt status.
- Make gifts of at least five percent of their assets every year.
- Not engage in self-dealing. The families or trustees of foundations can't benefit from foundation grants.
- Do no lobbying, except on voting rights. During the 1970s, this requirement made foundations very tenuous about getting involved in public-policy issues, Healey said.
- Pay an excise tax, which started out at four percent and is now down to one to two percent.

Large foundations tend to be staff-run. The staff members do the research, interview the applicants and read the proposals, Healey said. "Are the staff too powerful?" she asked. "Maybe," she replied. "They view themselves more as gatekeepers now." She said when she worked as a foundation staffer, she viewed herself as an intermediary: a reporter to the board and a resource for the grantees.

"Good ideas," she said. "That's what it was in my day. It's changed quite a bit."

In small foundations, she noted, especially family foundations, the board tends to be more involved in developing grant guidelines and directing the staff.

But in all foundations, Healey contended, the power ultimately lies with the board, because it can always fire the staff.

How a foundation decides on its areas of interest depends on the board, the history of the foundation and sometimes on the staff. "Sometimes the staff gets the board involved and sometimes the board has its own ideas and the staff implements them or refines them," Healey said.

Whether to give program support or ongoing operating support is a major point of discussion among foundations. Healey pointed out that in the 1980s, foundations started to focus more. "It's a problem," she said, "because foundations want to show outcomes. And nonprofits want to show outcomes so they can justify to their donors how they're using their money."

"But what are outcomes?" she asked. "Are outcomes activities or longer term? This is one of the great, unanswered questions in the philanthropic community. Perhaps you can show that the outcome you're looking for is not an immediate outcome, but it could have profound changes in educating the public."

For human services organizations, Healey said, outcomes are often reported as how many sessions they had and not as how many lives have changed. "A therapy session for a family is an activity," she said. "An outcome is a kid who wants to stay in school. That's a profound difference. We have to stop talking about success as activities and start talking about success as change."

Foundations used to see themselves as having little role in public life, affecting or effecting public-policy changes. "Things have changed in that regard in the past few decades," Healey said, "but foundations are still careful about being identified with a public-policy push. As unelected forces in the public arena that are prohibited from lobbying, foundations do not want to arouse the interest of Congress, as has happened a couple of times in the past 30 years. The best way to accomplish that is to keep a low profile on public-policy issues. The last time Sen. Chuck Grassley's committee held hearings on foundations, it demanded a lot of time and response from the national Council on Foundations and its legal staff. That was 20 years ago, but foundations still remember."

Foundations don't have the expertise and are not necessarily interested in developing a list of the most urgent needs in the community. An interviewer recalled that the Citizens League used to put together a list of the most urgent matters facing the state and would pick its own projects from that list. He asked whether foundations, working together, could develop such a list.

Healey responded that the foundations don't have the expertise or, perhaps, the interest to do that. "I don't think the foundations would do a very good job, even if you could get them interested," she said. In her view, the Civic Caucus or other organizations like it should be the ones developing the list.

The largest foundations don't have living donors. As time has passed, Healey said, these foundations have become less attached to their original donors or to those donors' wishes.

Operating foundations use at least 80 percent of their payout to fund their own programs. Healey said the Wilder Foundation is an operating foundation, because it pays out money from its corpus to support its own programs.

Today lots of foundations have clear ideas of what they want to have happen. Healey said grant writers try to match what each foundation sees as its mission. "That's part of the fluidity of the process," she said. "It's all creative on both the grant seeker's side and the grant maker's side."

Historically, local foundations have had a fierce sense of independence. Healey said when she was hired in 1975 to build the new Minnesota Council on Foundations, she learned that local foundations were fiercely independent. She said that has changed in recent years and that some

collaborations have taken place among local foundations. "The danger in collaborating, however," she asserted, "is that when grant decisions are discussed among foundations, a 'group-think' can take over that bars some grantees or favors only the collaborative projects, leaving the rest of the community out in the cold. On the other hand, the advantages of collaboration are obvious: more money to solve some identified community problem."

The biggest growth in philanthropy across the board is in donor-advised funds in community foundations. That is a low-cost way for families of wealth to put their money into a foundation, Healey said. A lot of that money is coming in from the sale of companies. Because of the tax implications when a company is sold, people are often advised to put part of the money from the sale into a charitable foundation. "More and more, they're doing it with community foundations, not independently," she said. "That's where the growth is now."

As an indicator of that growth, Healey noted that when she came to work for the Council on Foundations in 1975, the Minneapolis Foundation had \$15 million in assets and the St. Paul Foundation had \$35 million. Now they each have around \$1 billion in assets.

Foundations no longer look to academic institutions for ideas. Healey said years ago, Al Heckman, former executive director of the Hill Family Foundation (later the Northwest Area Foundation), used to go to the Campus Club at the University of Minnesota and talk to people about what they were working on. He'd encourage people to submit proposals to the foundation. "That doesn't happen anymore," Healey said. "Foundations no longer look to the academy for ideas."

However, Healey noted that connections between foundations and academia still exist. Foundations do make grants to universities, often for research. And sometimes, larger foundations hire staff from academic institutions to help develop foundation programs.

Other organizations are always afraid to criticize foundations, because they might need a grant sometime. "Nobody is looking at foundations and nobody wants to criticize them," Healey said. "It's too bad." She indicated that there had been more open public debate about foundations in the past.

In the 1990s, she worked with an organization of 40 CEOs of human services organizations who started the movement to get foundations to look at long-term outcomes. "There's nothing like that today," she said. "The Civic Caucus could do that."

The Citizens League had a profound impact on the Twin Cities area. Healey, a former Citizens League board member, said the League brought people together to wrestle with issues. "There's nothing like that anymore that engages people who are also engaged in other parts of civic life," she said.

Foundations won't hold their grantees accountable for coming up with precise and actionable proposals. An interviewer asked whether foundations could make sure civic organizations they fund come up with specific, actionable proposals. Healey responded that it's the grantees' responsibility to get things done. "If it becomes the foundation's responsibility, then it's a contract situation," she said.

Nationally, we're in a civic time that's dangerous. "We don't need a lot of academic research in order to be a voice for something changing," Healey said. "Where are the voices saying, 'We're not a

group of thugs; we forged a country.' Foundations are a peripheral part of that because they have the resources. Is there a voice that can come forward and foundations could give attention to?"

Nobody's raising the issue of what is happening to us as a result of technology. An interviewer commented that technology has brought societal change in the way we gather, dialogue and participate. He noted that people don't join organizations like they used to. Healey responded by saying she worries what will happen to our civic life. When the interviewer said, "It's gone," Healey responded, "We have to get it back."

"There's always change going on," she continued. "We must accept that, but also speak up when change is harming us as a body politic. Nobody's doing that. I worry about America."